Saving for the Future: 
Leveraging the Workplace to Help Families Save for the Future

The Problem: Working Families Need Savings for the Short Team and the Long Term
Too many Americans lack the savings needed to ensure financial security. Today, forty percent of households throughout the country live in liquid asset poverty, meaning that if they lost their income due to a death in the family, a job loss, a hospitalization or a host of many other disruptions, they do not have enough savings to live at the poverty level for three months. Liquid asset poverty is even more prevalent in Black and Latino households, 63% of which are liquid asset poor.

Adding to this, about a third of the U.S. workforce lacks access to a retirement plan at work. Among those who are eligible to participate in a 401(k) plan, about one fifth do not participate. This lack of short-term savings makes it harder for working families to handle financial emergencies and prevents them from building savings for their long-term goals, such as buying a home or having a secure retirement.

Financial instability is not only a problem for an individual or family, but also potentially to those around them. For example, when it comes to workers, personal finance issues can distract them from doing their jobs, inhibiting their productivity. In fact, one study indicates that a quarter of employees report that personal finance issues have been a distraction while working, and 18% of workers say that productivity at work has been affected by financial worries. Outside of time spent worrying, these personal finance issues can also mean that employees devote more company hours towards solving these problems instead of working. Eleven percent of workers also say they have missed work due to financial worries. Savings can play a key role in improving financial well-being, which can lead to decreased stress over financial issues.

The Solution: Using the Workplace as a Platform for Saving
Workplace retirement savings programs can offer an opportunity to help working families save for a range of economic needs, but only if workers are given the support to do so. The Saving for the Future proposal calls for workers to be automatically opted in to a retirement savings program at a percentage, such as four percent, of their own earnings (workers can opt out of the program if they would like to). Making enrollment an automatic feature has the potential to greatly boost participation in retirement plans. In addition to automatic enrollment, this proposal also increases workers’ contributions each year by half a percentage point, going up to ten percent. Upon retirement, workers may use their savings as monthly income or collect a lump sum all at once. These retirement accounts will be portable, low-fee and worker-owned.

An innovative feature of this proposal is that it not only aims to address the retirement savings crisis facing so many workers, but also the lack of emergency savings among households throughout the country. For example, to help workers build emergency savings, the first $2,500 in savings a worker accumulates through this program would go to a government-run savings account—a safely-invested, accessible account designed for short- and medium-term savings. When the savings account is at its maximum of $2,500, additional contributions then go to a worker’s retirement fund and help the employee save for their future. This concept has been modeled in the Saving for the Future Act, led by Senators Chris Coons (D-DE) and Amy Klobuchar (D-MN) and Representatives Scott Peters (D-CA-52), Lucy McBath (D-GA-6) and Lisa Blunt Rochester (D-DE-AL).
With a federally provided savings account alongside a retirement account, a working family can stay financially intact through an unexpected car repair, a reduction in or loss of public benefits and a job loss or reduced work hours. Couple that with an automatic enrollment feature, scaled savings and employer contributions towards retirement savings, and workers will be in a better place to spend their golden years in comfort. This public-private collaboration between government and employer means that working Americans can have a better shot at building their financial security in both the short- and long-terms.

There is already an infrastructure to encourage savings in many American workplaces. Retirement savings options are available to 67% of workers.² Although many workers still lack access to workplace-based retirement plans and others do not participate, citing unaffordability, the successes in retirement savings offer lessons for other kinds of saving.

Behavioral insights can be leveraged to encourage different kinds of savings. Research has shown that automatically enrolling workers in retirement savings programs leads to more participation.³ When employers automatically include employees in their retirement plan—with the option to opt out—more people save money, compared to workplaces that require workers to opt into a plan. The creation of separate “buckets” for retirement and rainy-day savings encourages both short- and long-term savings. Separate after-tax short-term savings accounts make it easier for workers to save by giving them access to a savings vehicle. These accounts also emphasize the importance of saving for emergencies and can impact workers’ “mental accounting,” ensuring saving is a priority in monthly budgeting.

With so many households living on the financial edge, it is critical to help them save for both inevitable financial emergencies and their future. Creating this wealth-building support in the workplace will play a key role in reducing wealth inequality, especially in households of color.

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⁸ https://doi.org/10.7208/chicago/9780226076508.001.0001